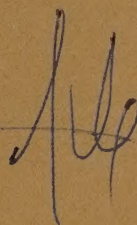
A handwritten signature in blue ink, appearing to be 'C. M.', located in the upper right quadrant of the cover.

1972 annual report

YEAR ENDED JANUARY 31, 1972

A handwritten signature in blue ink, appearing to be 'H. L.', located above the company name.

LOCHIEL
exploration ltd.

A large, sweeping handwritten flourish in blue ink that loops around the company name 'LOCHIEL exploration ltd.'.

DIRECTORS

THOMAS E. DAVIS

Executive, Ampex Corporation, Menlo Park, California

MERVYN S. DEVONSHIRE

Partner, Devonshire, Munro & Co., Chartered Accountants, Calgary, Alberta

ROLAND B. DODWELL

Investment Dealer, Walwyn, Stodgell & Co., Limited, Toronto, Ontario

WILLIAM J. MAJOR, Q.C.

Partner, Major, Caron & Fraser, Barristers & Solicitors, Calgary, Alberta

STANLEY L. MELTON

President, Melton Real Estate Ltd., Edmonton, Alberta

NICHOLAS W. TAYLOR

President of the Company, Calgary, Alberta

WILLIAM A. WORK

Secretary of the Company, Calgary, Alberta

OFFICERS

NICHOLAS W. TAYLOR, President

STANLEY L. MELTON, Vice-President

WILLIAM A. WORK, Secretary

MERVYN S. DEVONSHIRE, Treasurer

HIGHLIGHTS

	<u>1972</u>	<u>1971</u>
Gross Revenue . . . \$	571,000	\$ 332,000
Cash Flow . . .	300,000	52,000
— Per Share . .	5.6¢	1.2¢
Net Income (loss) .	138,000	(825,000)
— Per Share . .	2.6¢	(19.3¢)
Land Holdings		
— Gross Acres .	11,354,184	8,375,772
— Net Acres .	5,641,374	2,713,766

HEAD OFFICE

550 - 6th Ave. S.W., Calgary, Alberta T2P 0S2

REGISTRARS AND TRANSFER AGENTS

GUARANTY TRUST COMPANY OF CANADA

311 - 8th Ave. S.W., Calgary, Alberta and

366 Bay Street, Toronto, Ontario

BANKERS

THE TORONTO-DOMINION BANK

Calgary Place, Calgary, Alberta

AUDITORS

TOUCHE ROSS & CO.

600 - 6th Ave. S.W., Calgary, Alberta

SOLICITORS

MAJOR, CARON & FRASER

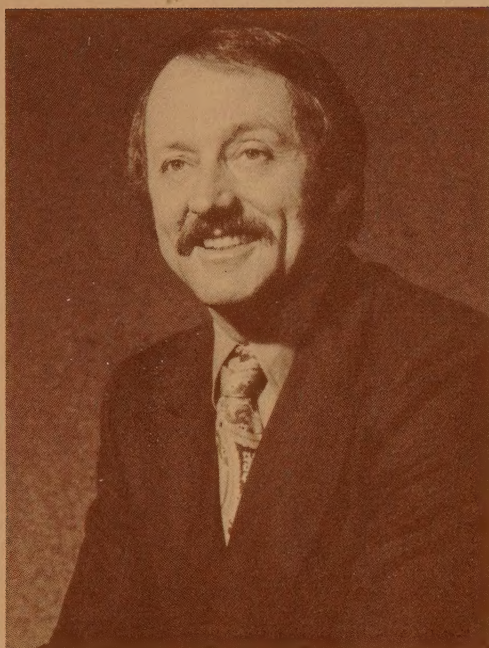
600 - 6th Ave. S.W., Calgary, Alberta

SHARES LISTED

TORONTO STOCK EXCHANGE

CALGARY STOCK EXCHANGE

to the shareholders



NICHOLAS WILLIAM TAYLOR

Lochiel Exploration Ltd. achieved record levels of operating volumes, revenues and earnings in 1971 and continued to expand its acreage position and to participate in exploration and development programs.

Cash flow from operations increased almost five fold to \$299,502 or 5.6¢ per share and net earnings for the year were \$138,424 compared to a loss in 1970. Working capital at year end amounted to \$345,878 and increased since then to over \$1,000,000 by farmout proceeds on Arctic Island permits. This provides the company with a strong cash position.

Interest in Arctic exploration activities remained at a high level during the year. Major new commitments were made both in the far north and off the east coast. Further discoveries of natural gas and crude oil were made in the McKenzie Delta and important new discoveries occurred at Kristoffer Bay on Ellef Ringnes Island and on Fosheim Peninsula on Ellesmere Island. The natural gas discovery by Panarctic at Kristoffer Bay is especially significant to Lochiel as it lies a mere 1/4 mile from an acreage block in which the company holds a 3% gross overriding royalty that may be converted to a 12% carried working interest on a permit by permit basis. This block has now been straddled by the Kristoffer Bay and King Christian Island discoveries. An offshore seismic program was completed during the past year and the results are most encouraging.

The Company has been active in acquisitions of exploration acreage in Alberta and places great emphasis on representation in favourable prospective areas at home and abroad.

Lochiel's policy is to participate in many exploration prospects covering a variety of geologically attractive areas, and to obtain the maximum exposure at minimum cost. Careful analysis by the Company's own staff identify areas of interest in order to acquire specific lands either for its own account or in co-operation with other companies. In addition the staff evaluates ideas submitted to them by others who desire Lochiel's participation in their exploration projects.

In this manner, Lochiel is able to participate to varying degrees, depending on economics, in the evaluation of a significant number of prospects. In many of the drillable prospects, Lochiel will participate directly, or they will be drilled by others at reduced or no cost to the Company, for a net working interest or royalty position.

The Company broadened its management base during the year. R. L. Curr joined the firm as chief geologist and A. H. Pfeffer assumed the position of controller. The company now has depth in management and is well prepared to carry forward a long term exploration and development program.

On Behalf of the Board
NICHOLAS W. TAYLOR
President

Financial review

Revenue from sales of crude oil and natural gas increased by 87% over last year to \$549,840. Cash flow from operations and net earnings increased substantially to \$299,502 and \$138,424 respectively. Working capital at year end amounted to \$345,878 compared to \$292,912 at the end of last fiscal year.

The increase in operating results reflects the first full year's operations of the expanded facilities at Atlee Buffalo in southern Alberta, where the company owns a 50% working interest in the Atlee Sandstone Unit No. 1 which contains 30 producing natural gas wells and related compression and dehydration facilities.

The Company re-negotiated its bank borrowings during the year. A short term loan was repaid by extending production loans. The latter are repayable in aggregate over a six year period at \$17,500 per month, and are secured by certain producing properties of the Company.

On November 1, 1971 the Company and its two wholly owned subsidiaries were amalgamated in order to eliminate duplication of administration. The new entity continues to operate under the name of Lochiel Exploration Ltd.

Subsequent to the end of the fiscal year under review, the Company received a substantial cash payment. On March 1, 1972 two farmee companies on Lochiel's Arctic Island permits exercised options on certain permits and extended options on others, yielding the Company's treasury approximately \$865,000 and increasing working capital to over \$1,000,000.

Additions to Property, Plant and Equipment during 1971 totalled \$386,962, made up as follows:

Additions to producing property and equipment	\$ 53,573
Petroleum exploration costs, including land acquisitions	311,283
Mineral exploration costs	22,106

production review

Production reached a record level during the year. With the completion of the expansion of the Atlee Buffalo facilities, production of na-

tural gas averaged 8,700 MCF per day for a total of 3.15 Billion Cubic Feet, an increase of 75% over the previous year. Crude oil production for the year amounted to 23,206 bbl., an increase of 33%.

The bulk of the company's gas production is derived from the Atlee Buffalo area in southern Alberta and from offshore wells in Lake Erie, Ontario. Oil production comes from two units in the Swan Hills area, from the Baxter Lake pool in Alberta, and from two units in the Virden Roselea area of Manitoba.

Production testing at the East Wainwright pilot project for thermal recovery techniques continued during the year. Testing of the two producing wells, in which the Company has an interest, showed encouraging results.

Reserves February 1, 1972 (before deduction of royalties).

	Natural Gas (1,000 cu. ft.)	Crude Oil (barrels)
Proven developed	44,662,514	258,438
Probable	—	124,496
	<u>44,662,514</u>	<u>382,934</u>

exploration review

Exploration expenditures, including both capital and expense items, totalled \$333,389 of which \$311,283 were applicable to petroleum exploration and \$22,106 to mineral exploration. Expenditures for petroleum exploration consisted mainly of land acquisition costs and preliminary geological assessment. Mineral exploration costs include further expenditures in the Baker Lake region of the Northwest Territories and the acquisition of an interest in mining claims in the Cache Creek area of British Columbia.

Acreage Holdings at January 31, 1972

	Gross Acres	Net Acres
Pacific Offshore (1) ..	2,187,190	1,021,167
Beaufort Sea	1,723,880	54,918
Yukon Territory	595,000	8,925
Arctic Islands	3,238,111	1,208,517
East Coast Offshore ..	2,804,222	2,804,222
Hudson Bay	484,104	484,104
Alberta	252,240	52,515
Foreign	69,437	6,943
	<u>11,354,184</u>	<u>5,641,374</u>

(1) includes 1,859,878 acres under application.

Arctic Islands

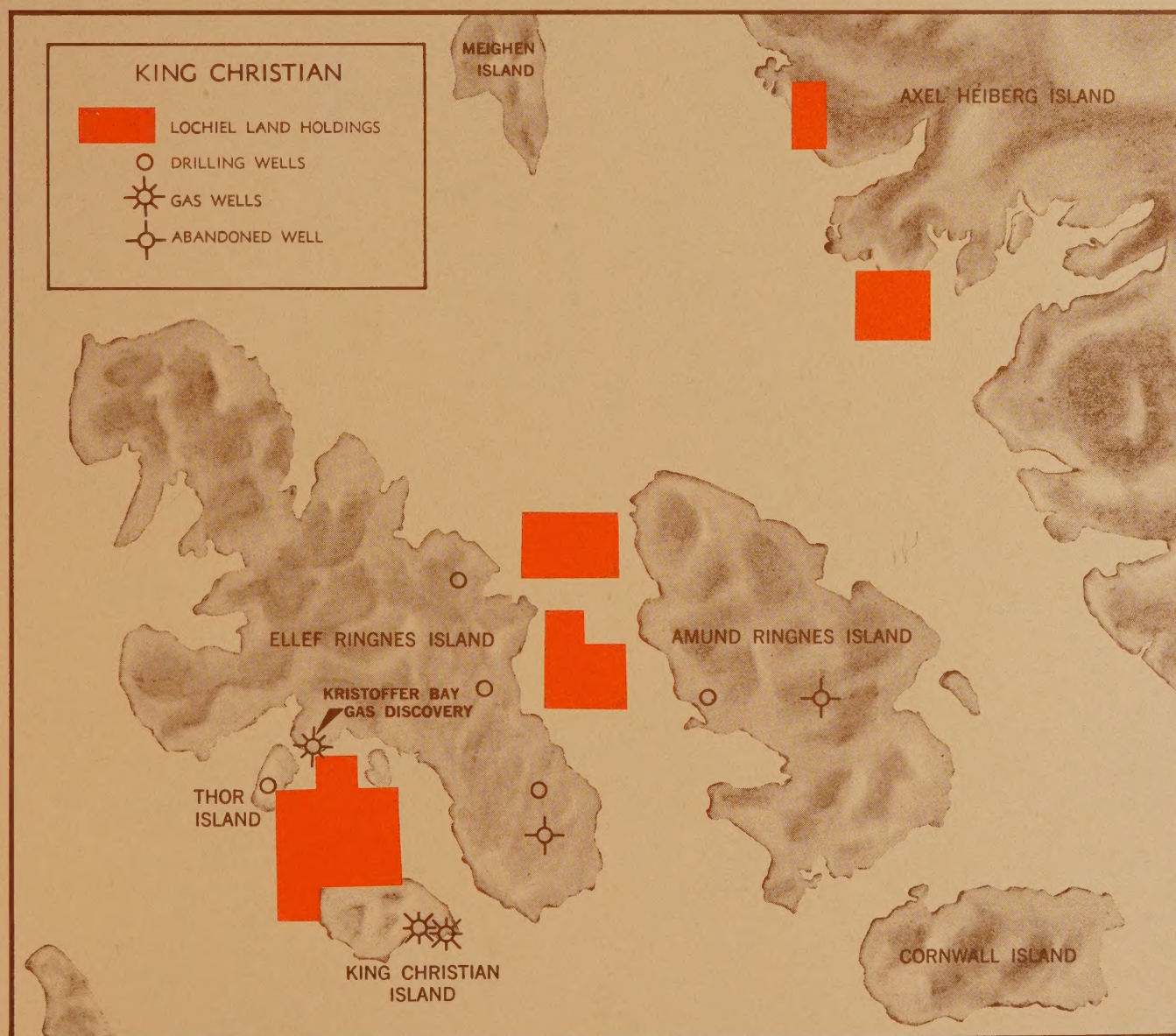
The level of exploration activity in the Arctic Islands accelerated sharply during the last 12 months. Panarctic discovered natural gas at Kristoffer Bay on Ellef Ringnes Island and crude oil on the Fosheim Peninsula on Ellesmere Island.

The Kristoffer Bay discovery lies within $\frac{1}{4}$ mile of a 292,625 acre block in which Lochiel retains a 3 percent gross overriding royalty convertible to a 12 percent carried working interest after discovery on a "per permit basis". The acreage which is located between the King Christian and Kristoffer Bay discoveries is of considerable significance to Lochiel. Further evaluations of this acreage will be obtained in 1972 with the recently announced Panarctic Tenneco et al Thor Island location on the northwestern edge of the acreage. Further drilling on King Christian is also anticipated in 1972.

Also in this portion of the Arctic, four tests, Panarctic Gulf Helicopter, Panarctic Gulf West Amund, Gulf Dumbells and Imperial Panarctic Dome et al Hoodoo are within twelve miles of two blocks of acreage held by Lochiel containing some 253,877 acres.

The acreage, which is between Amund Ringnes and Ellef Ringnes Islands is held 100% by Lochiel subject to an option to Sun Oil.

Lochiel maintains a 100 percent interest in another 1.1 million acres located on the west side of Devon Island, south end of Somerset Island and in Viscount Melville Sound. Early in 1972 the Company acquired a 100 percent interest in approximately 400,000 acres on Ellesmere Island at the northeastern edge of the Sverdrup Basin some 100 miles north-east of the recently announced Panarctic Fosheim oil discovery.



Beaufort, McKenzie Delta and Yukon

Lochiel maintains a gross overriding royalty plus a net carried interest in approximately 1.7 million acres in the Beaufort Sea. Marine seismic programs in the Beaufort Sea indicate the presence of thick sedimentary sections accompanied by a number of large structures. This area holds considerable promise in view of

the significant onshore oil and gas discoveries made by Imperial and Gulf.

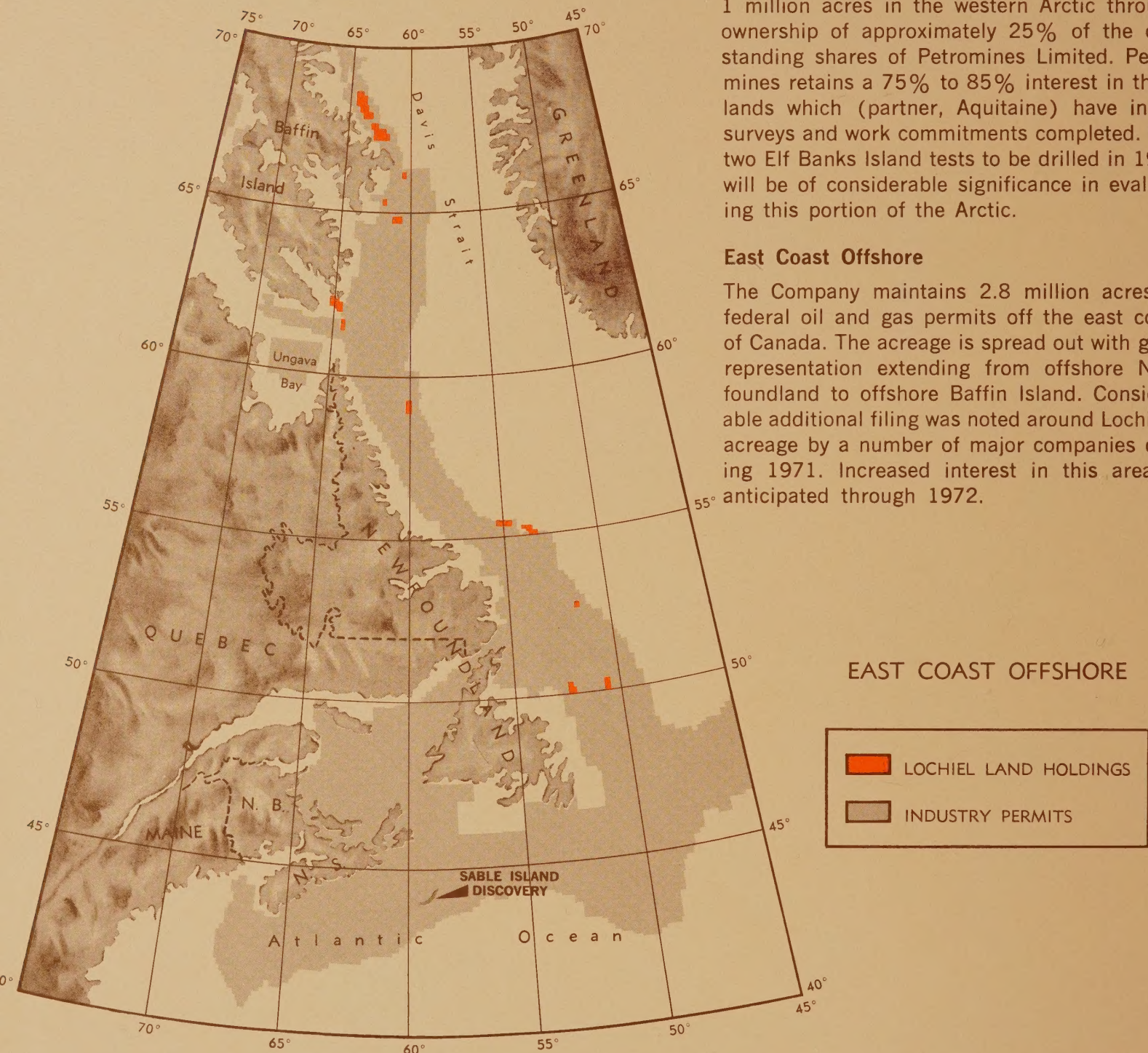
Onshore in the Yukon Territory, Lochiel maintains a 1.5 percent gross overriding royalty in 595,000 acres.

Additional Arctic Interests

Lochiel maintains an interest in approximately 1 million acres in the western Arctic through ownership of approximately 25% of the outstanding shares of Petromines Limited. Petromines retains a 75% to 85% interest in these lands which (partner, Aquitaine) have initial surveys and work commitments completed. The two Elf Banks Island tests to be drilled in 1972 will be of considerable significance in evaluating this portion of the Arctic.

East Coast Offshore

The Company maintains 2.8 million acres of federal oil and gas permits off the east coast of Canada. The acreage is spread out with good representation extending from offshore Newfoundland to offshore Baffin Island. Considerable additional filing was noted around Lochiel's acreage by a number of major companies during 1971. Increased interest in this area is anticipated through 1972.



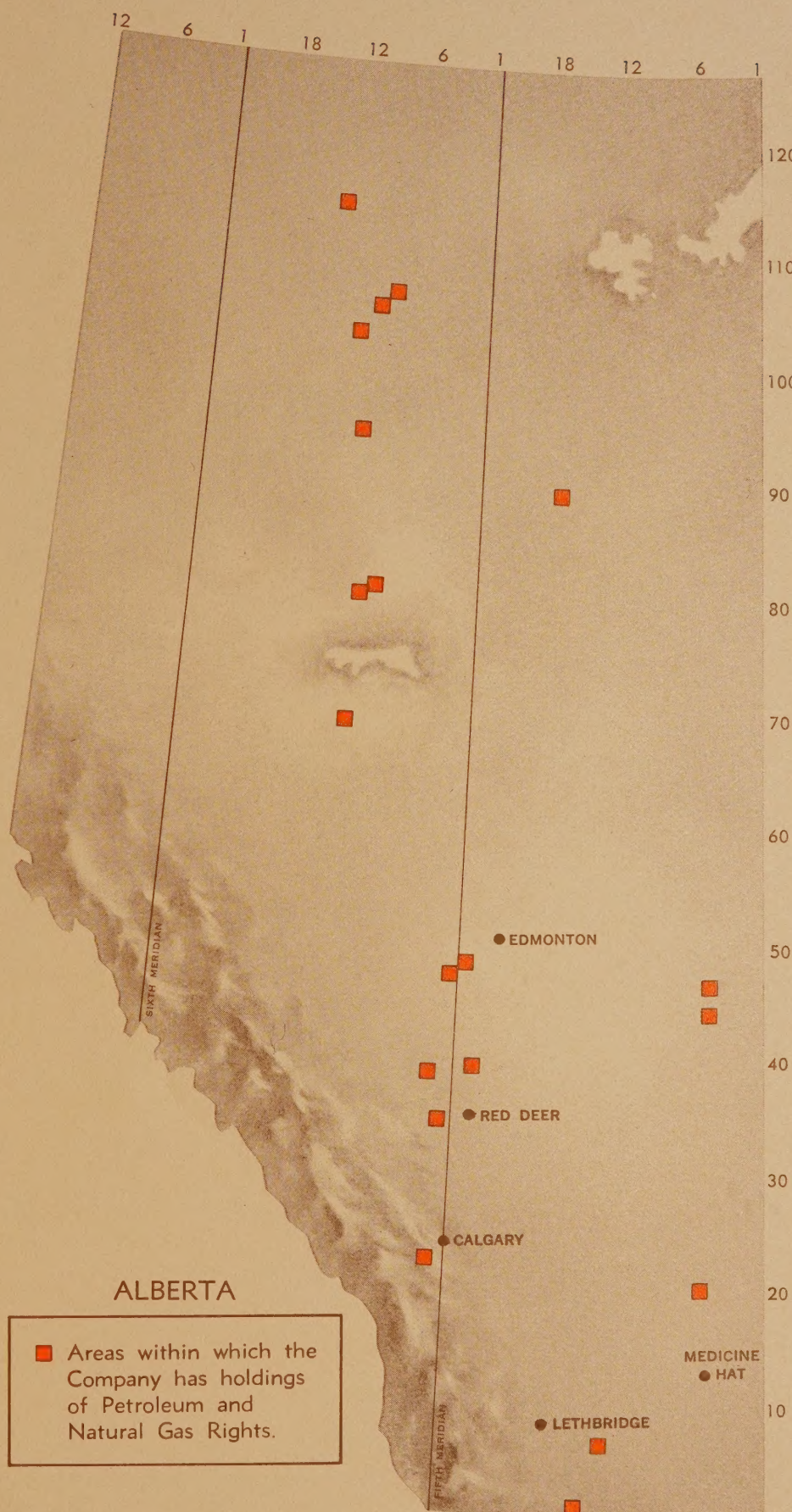
Pacific Offshore

As of year end Lochiel farmed out 243,386 acres off the West coast. Under the farmout terms the farmee will conduct necessary work to keep the permits in good standing to 1975. Lochiel will retain a 3% overriding royalty on these lands. During the latter part of the year the Company submitted an application on an additional 1.8 million acres in which it will retain a 40% interest. Lochiel is well represented in this area which has indications of becoming much more active in 1972.

Alberta

Lochiel continued with an aggressive land acquisition policy throughout 1971 with the addition of some 45,520 gross acres. The acreage varies from rank wildcat to close-in highly prospective lands. Recent offset discoveries have been made adjacent to some of these lands which will see further evaluations in 1972. A number of farmouts and drilling participations are anticipated for 1972 with additional exploration monies now available.

Early in 1972 the Company participated to the extent of a 10% interest in the acquisition of a 11,040 acre block in the Claresholm area purchased by a group of companies headed by Union Texas of Canada. The acreage is adjacent to and surrounds the Clark Canadian et al Claresholm 11-19-12-26W4 and 10-30-12-25W4M reported Mississippian oil and gas discoveries. Although these wells are being held under tight hole status, indications are they are significant discoveries. The acreage is presently being evaluated with a well in 6-30-12-25W4M in which Lochiel maintains its 10 percent interest. This well and any subsequent drilling in the area will determine the significance of this "hot spot" in Alberta exploration in 1972.

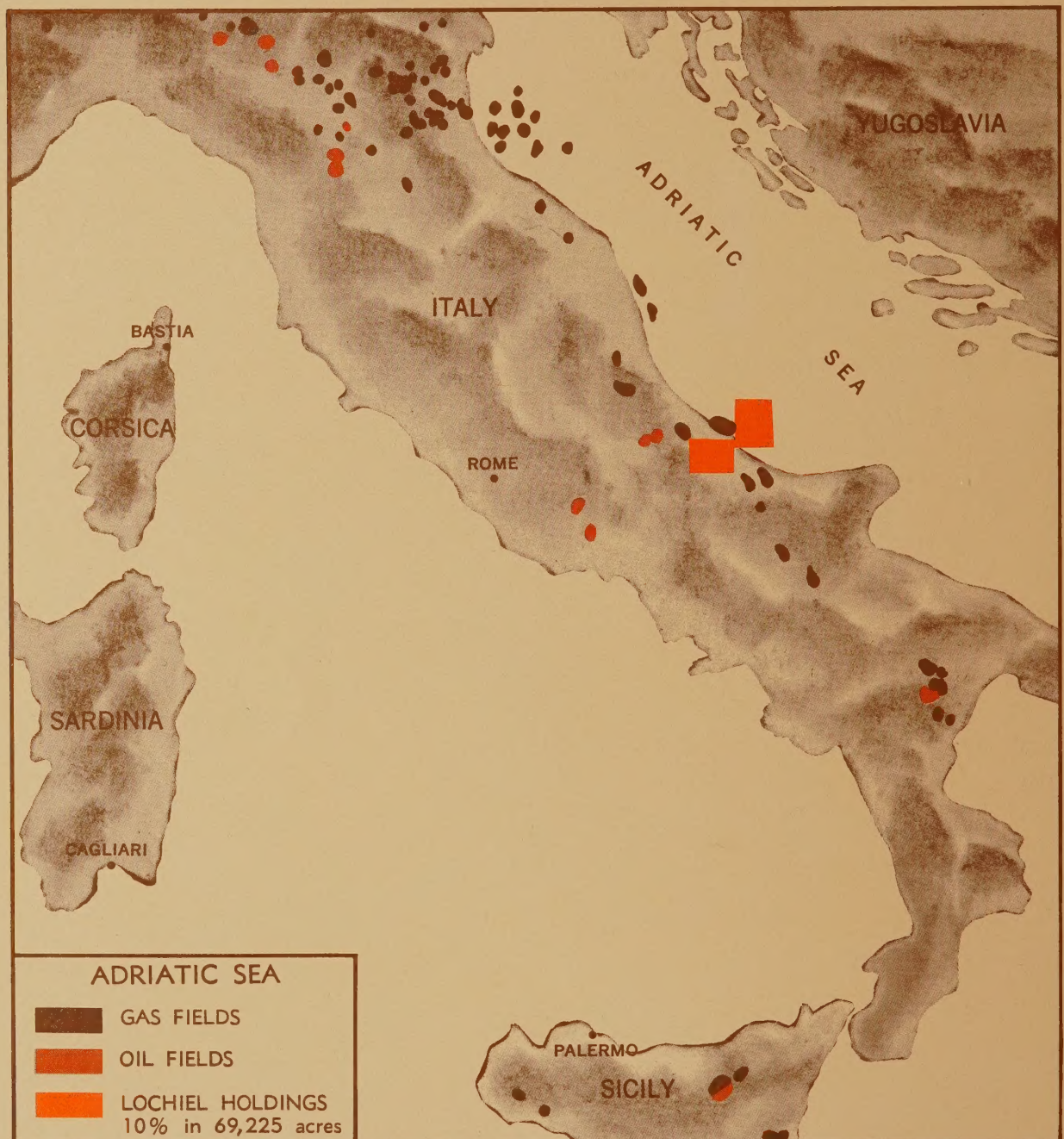


Foreign Areas

Evaluations are continuing on Lochiel's Italian acreage in the Adriatic Sea in which the Company has a 10% interest in 69,437 acres. At year end the Company was actively pursuing the acquisition of additional on and offshore acreage in this area.

Lochiel maintains its position with a group of companies that have acquired a non-exclusive licence offshore Ireland. Initial surveys were completed during the year.

The Company continued to pursue a number of foreign prospects at year end, several of which look very promising.



Mineral Exploration

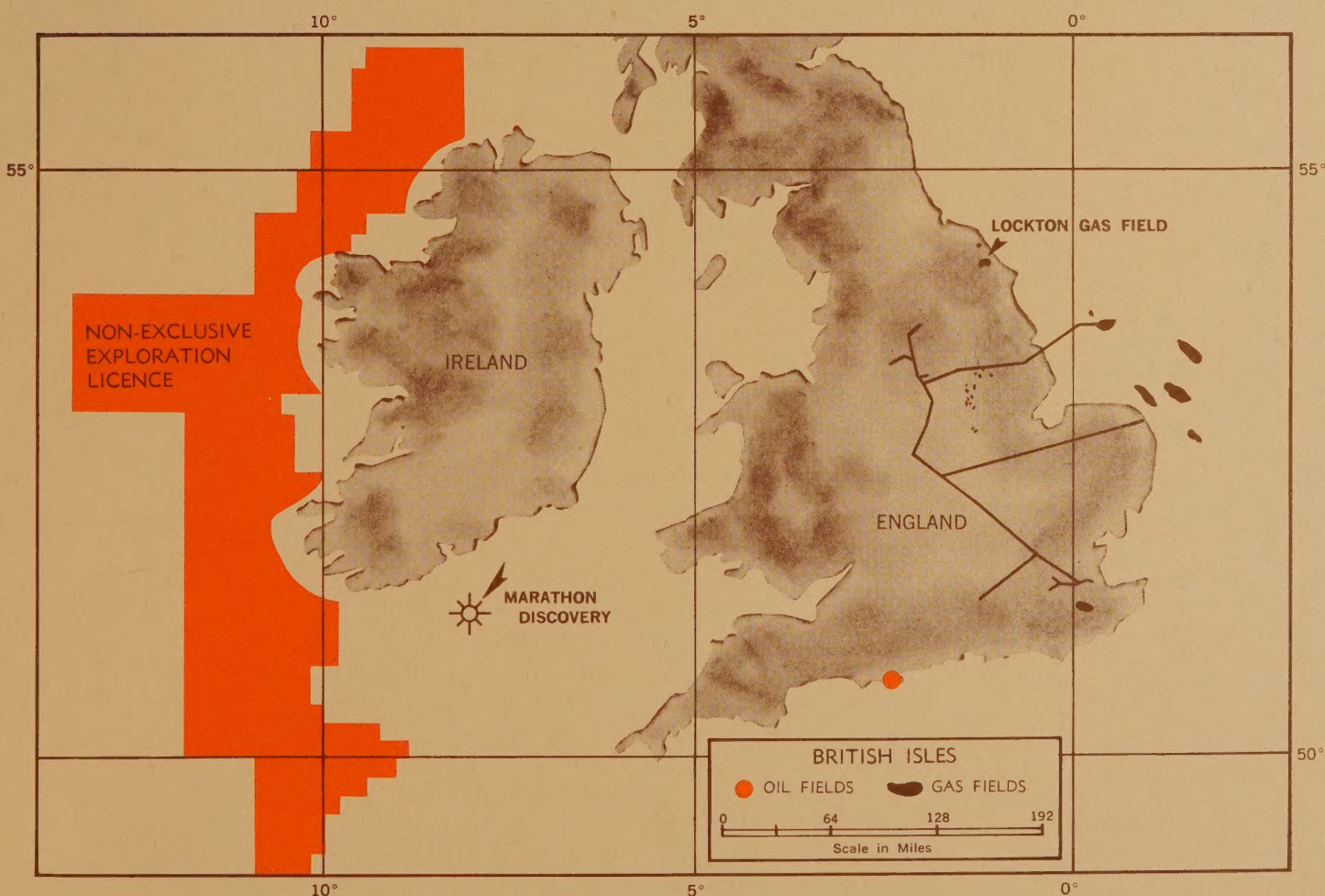
Exploration continued in the Baker Lake region northwest of Hudson Bay through 1971 with considerable encouragement. A total of 390 line miles of detailed airborne magnetic surveys were completed.

Four new areas of uranium mineralization were discovered some of which show much initial promise. These appear to be worthy of further investigation. Geological mapping was completed over much of Christopher Island and general geological settings of areas of interest on the mainland were determined. Soil geochemical and radon 222 studies were carried out. A total of 450 mineral claims were staked to adequately cover all areas of interest and their possible extensions.

The 1971 field exploration program was orientated toward developing methods to evaluate large promising overburdened areas. This program was considered to be highly rewarding and a number of zones were considered upgraded by the 1971 detailed work.

Lochiel interests in the Baker Lake area vary from 8 to 20%.

Lochiel also acquired a 20% interest in approximately 95 claims in the Cache Creek area of British Columbia. The acreage is located approximately one mile north of Bethlehem Copper's Maggie mine which is reported to have ore reserves of copper and molybdenum in excess of 200 million tons. Geochemical and magnetometer surveys were carried out on the acreage with encouraging results. The surveys suggest sizeable anomalies in the central and eastern areas of the property.



CANADIAN ARCTIC



LOCHIEL LAND HOLDINGS

○ DRILLING WELLS



GAS WELLS



OIL WELLS



ABANDONED WELLS



FUTURE DRILLING

PANARCTIC DRAKE POINT

PRUDHOE BAY

IMPERIAL AND GULF DISCOVERIES

BEAUFORT

SEA

BANKS

ISLAND

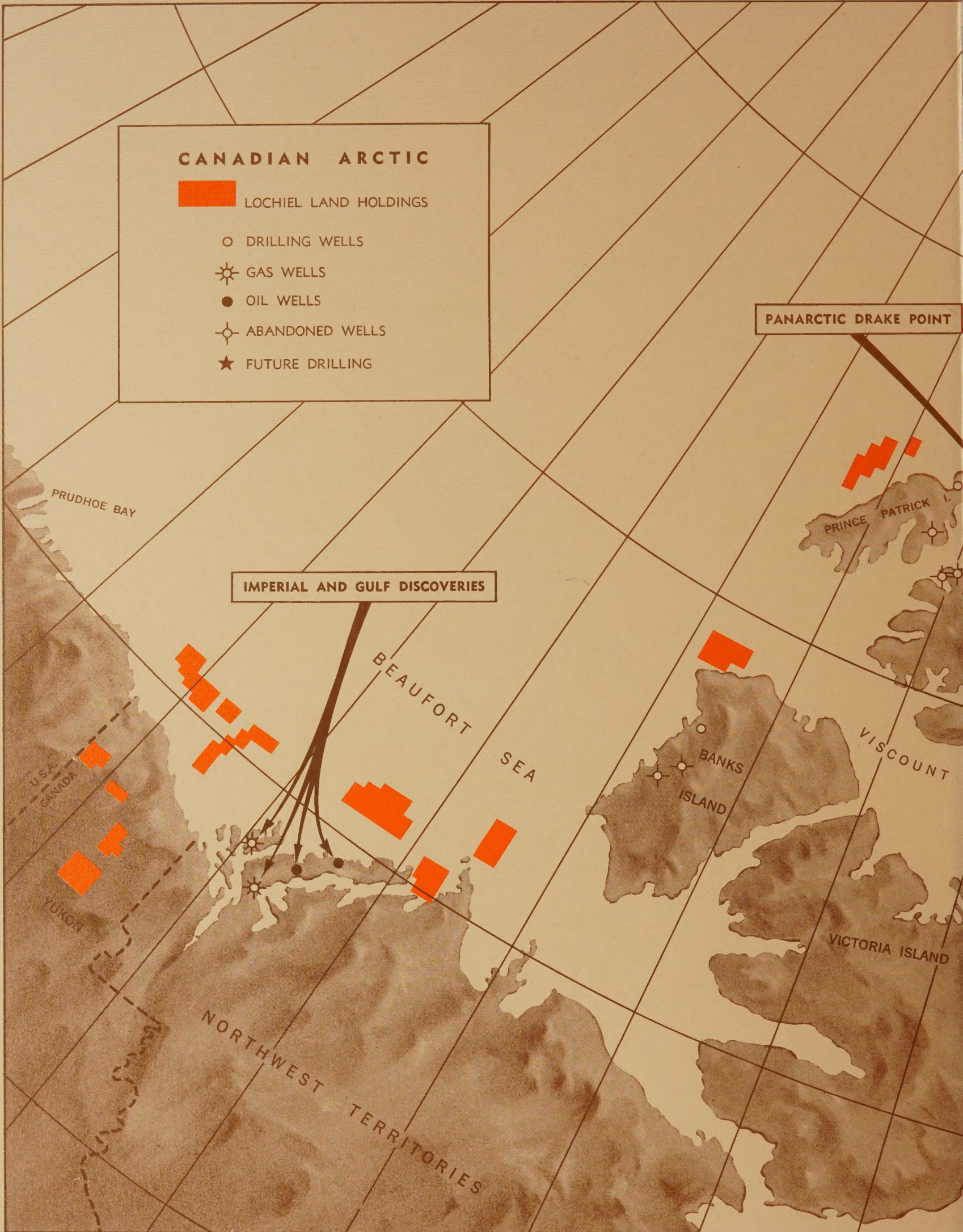
VISCOUNT

VICTORIA ISLAND

NORTHWEST
TERRITORIES

USA
CANADA

YUKON





PANARCTIC ROMULUS

PANARCTIC KING CHRISTIAN
AND KRISTOFFER BAY

GREENLAND

ELLESMERE

AXEL

HEIBERG

ISLAND

ISLAND

AMUND
RINGNES

CORNWALL

DEVON

ISLAND

BAFFIN
BAY

LANCASTER SOUND

SOMERSET
ISLAND

BYLOT I.

BAFFIN ISLAND

BOOTHIA
PENINSULA

PRINCE
OF
WALES I.

SOUND

STEFFANSSON
I.

ELLEF
RINGNES

KING
CHRISTIAN
I.

LOUGHEED
I.

VANIER
I.

BATHURST

MACKENZIE
KING I.

BORDEN I.

ERD I.

LE I.

LVILLE

LOCHIEL EXPLORATION LTD.

statement of income and deficit

For The Year Ended January 31, 1972

	<u>1972</u>	<u>1971</u>
Revenue		
Oil and gas sales, less royalties	\$ 549,840	\$ 294,552
Other income, net	21,396	37,292
	<hr/> 571,236	<hr/> 331,844
Expenses		
Operating	107,670	78,454
General and administrative	81,597	128,046
Interest on long-term debt	82,467	72,979
	<hr/> 271,734	<hr/> 279,479
Cash flow from operations	299,502	52,365
Non-cash charges (Note 2)		
Depletion	104,557	53,572
Depreciation	56,521	37,519
	<hr/> 161,078	<hr/> 91,091
Net income (loss) before income taxes and extraordinary item	138,424	(38,726)
Deferred income taxes (Note 7)	—	28,744
	<hr/> 138,424	<hr/> (67,470)
Extraordinary item		
Write-down of investment in Petromines Limited	—	(757,952)
NET INCOME (LOSS) FOR THE YEAR	138,424	(825,422)
Deficit at beginning of year	(1,266,258)	(400,836)
Dividend paid by subsidiary prior to acquisition	—	(40,000)
Deficit at end of year	<hr/> (\$1,127,834)	<hr/> (\$1,266,258)
	<hr/>	<hr/>
	Per Share (Note 11)	
Income (loss) before extraordinary item	2.6¢	(1.6¢)
Extraordinary item	—	(17.7¢)
Net income (loss) for the year	<hr/> 2.6¢	<hr/> (19.3¢)

LOCHIEL EXPLORATION LTD.

statement of sources and uses of funds

For The Year Ended January 31, 1972

	<u>1972</u>	<u>1971</u>
Sources of Funds		
Cash flow from operations	\$299,502	\$ 52,365
Issuance of capital stock (Note 8)	78,750	742,875
Increase in long-term debt	237,500	421,726
Deposits refunded	12,015	28,459
Sale of investments	—	3,958
	<u>627,767</u>	<u>1,249,383</u>
 Uses of Funds		
Property, plant and equipment, net (Note 2)	386,962	633,517
Repayment of long-term debt	150,615	—
Investment (Note 3)	28,400	—
Reduction in participants' advances (Note 6)	8,824	1,931
Dividend paid by subsidiary prior to acquisition	—	40,000
Refundable deposits	—	16,530
	<u>574,801</u>	<u>691,978</u>
 Increase in Working Capital	52,966	557,405
Working Capital at beginning of year	<u>292,912</u>	<u>(264,493)</u>
Working Capital at end of year	<u>\$345,878</u>	<u>\$ 292,912</u>

LOCHIEL EXPLORATION LTD.

balance sheet at January 31, 1972

assets

	<u>1972</u>	<u>1971</u>
Current Assets		
Cash	\$ 7,507	\$ 56,275
Term deposits	210,000	425,000
Marketable securities, at cost, (market value 1972 - \$92,690; 1971 - \$206,133)	166,817	273,778
Accounts receivable	184,757	52,926
Prepaid expenses	2,323	4,684
	<hr/> 571,404	<hr/> 812,663
Property, Plant and Equipment		
At net cost (Notes 2 & 4)	4,049,314	3,662,352
Accumulated depreciation and depletion	344,006	182,928
	<hr/> 3,705,308	<hr/> 3,479,424
Other Assets		
Investment (Note 3)	335,083	306,683
Refundable deposits	63,282	75,297
	<hr/> 398,365	<hr/> 381,980
	<hr/> <hr/>	<hr/> <hr/>
	\$4,675,077	\$4,674,067

liabilities

	<u>1972</u>	<u>1971</u>
Current Liabilities		
Accounts payable	\$ 15,526	\$ 72,251
Bank loan	—	194,600
Current portion of long-term debt	210,000	252,900
	<hr/> 225,526	<hr/> 519,751
Long-Term Debt (Note 5)		
Production loan, secured	1,017,886	973,901
Less amount due within one year	210,000	252,900
	<hr/> 807,886	<hr/> 721,001
Participants' Advances (Note 6)	36,396	45,220
Deferred Income Taxes (Note 7)	36,957	36,957
	<hr/>	<hr/>
Total Liabilities	1,106,765	1,322,929

shareholders' equity

Capital Stock (Note 8)		
Authorized		
10,000,000 shares of no par value		
Issued		
5,332,526 shares (1971 -		
5,262,526 shares)	4,696,146	4,617,396
Deficit	(1,127,834)	(1,266,258)
	<hr/> 3,568,312	<hr/> 3,351,138

Signed on behalf of the Board
N. W. TAYLOR, Director
W. A. WORK, Director

<hr/> <hr/> \$4,675,077	<hr/> <hr/> \$4,674,067
-------------------------	-------------------------

LOCHIEL EXPLORATION LTD.

notes to financial statements

January 31, 1972

1. AMALGAMATION

The financial statements include the accounts of Lochiel Exploration Ltd. and its two wholly-owned subsidiaries, Citizens Pipeline Limited and N. W. Taylor Exploration Ltd., for the nine month period ended October 31, 1971. On November 1, 1971 Lochiel Exploration Ltd. and its two wholly-owned subsidiaries were amalgamated. The operations of the amalgamated entity continue under the name of Lochiel Exploration Ltd.

2. ACCOUNTING POLICIES

The Company follows the full cost method of accounting whereby all costs of exploring for and developing oil, gas and related reserves, including related overhead costs, are capitalized and proceeds from disposal of properties are normally deducted from costs without recognition of gain or loss.

Except for costs related to exploration permits in the Arctic Islands and off the east and west coast of Canada, all costs are depleted using the unit of production method based on estimated recoverable reserves of oil and gas. Because exploration in these areas is carried out over an extended period of time, the Company considers it inappropriate to include these permits, carried in the accounts at \$1,559,421, in its depletion base for the current year. See Note 12 regarding funds received subsequent to year end in respect of extension and exercise of options on certain Arctic permits.

Depreciation of production equipment is computed in a similar manner on related reserves.

3. INVESTMENT

The investment in Petromines Limited, carried in the accounts at \$335,083, increased by 398,281 shares to a total of 913,281 shares representing approximately 25% of the issued capital. 498,281 shares are subject to an escrow agreement. The market value of this investment at January 31, 1972 was approximately \$228,320, but due to the number of shares involved, the market value is not necessarily indicative of the amount that could be realized upon sale.

4. PROPERTY, PLANT AND EQUIPMENT

	1972		1971	
	Cost or net cost	Accumulated depletion and depreciation	Cost or net cost	Accumulated depletion and depreciation
Petroleum and natural gas leases and rights, including exploration and development (Note 2)	\$3,164,124	\$201,212	\$2,766,304	\$ 96,654
Production equipment	871,725	134,943	886,265	80,168
Other equipment	13,465	7,851	9,783	6,106
	<u>\$4,049,314</u>	<u>\$344,006</u>	<u>\$3,662,352</u>	<u>\$182,928</u>

5. LONG-TERM DEBT

The bank production loan is secured by certain of the Company's interests in petroleum and natural gas properties and is repayable in monthly installments of \$17,500 plus interest.

6. PARTICIPANTS' ADVANCES

This amount represents funds advanced from various sources for participation in oil and gas projects subject to agreements which provide for the advances to be recovered out of the first net proceeds from the projects and for participation in any subsequent net proceeds.

7. DEFERRED INCOME TAXES

Under Canadian income tax law, the Company is entitled to claim drilling, exploration and lease acquisition costs and depreciation which exceed the related charges to earnings. As a result no income taxes are payable for the current year.

The Canadian Institute of Chartered Accountants recommends the recording of corporate income taxes on the tax allocation basis for all timing differences between accounting income and taxable income. The Company follows this policy in respect of timing differences relating to tangible assets, but is of the opinion that the tax allocation basis is not appropriate for timing differences related to intangible drilling, exploration and lease acquisition costs and this view conforms with general practice in the oil and gas industry.

Had the Company followed the tax allocation basis in respect of intangible assets, deferred income taxes of \$40,800 would have been provided for the year and net income reduced to \$97,624. For 1971 a deferred income tax credit of \$33,565 would have reduced the 1971 loss to \$791,857.

8. CAPITAL STOCK

- (a) During the year the Company issued 70,000 shares for a consideration of \$78,750, being \$1.12½ per share, pursuant to options granted to Walwyn, Stodgell & Co. Limited in conjunction with the December 1970 public offering. The second option to this underwriter was not exercised and expired on October 15, 1971.
- (b) At January 31, 1972, 150,200 shares of capital stock are reserved for issuance to employees as Incentive Stock Options at prices ranging from \$1.10 to \$1.85 per share. These options are cumulative, may be exercised in equal installments commencing one year after date of option and expire in 1975 and 1976. No options have been exercised to date.

9. CONTINGENT LIABILITIES

The Company has issued non-interest bearing promissory notes totalling \$406,530 in favor of various government authorities. These notes are lodged as security for commitments on exploratory permits.

10. REMUNERATION OF OFFICERS AND DIRECTORS

The aggregate direct remuneration paid to directors and officers of the Company during the year is as follows:

	<u>Number</u>	<u>Amount</u>
Directors	7	\$ Nil
Officers, all of whom were directors	2	\$43,675

11. EARNINGS PER SHARE

Earnings per share are based on weighted monthly average number of shares outstanding.

12. SUBSEQUENT EVENTS

In February 1972, pursuant to the terms of option agreements granted by the Company covering permit acreage in the Arctic Islands, the Company received \$865,000 in respect of the extension and exercise of options.

auditors' report

The Shareholders

Lochiel Exploration Ltd.

We have examined the balance sheet of Lochiel Exploration Ltd. as at January 31, 1972 and the statements of income and deficit, and sources and uses of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at January 31, 1972 and the results of its operations and the sources and uses of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.
Chartered Accountants.

Calgary, Alberta
April 4, 1972

LOCHIEL EXPLORATION

Formerly
(Mollusca Oils)

LOCHIEL EXPLORATION
720 SEVENTH AVE. S.W.,
CALGARY 2, ALBERTA

Six Months Ending
July 31, 1969

INTERIM REPORT

Interim Report

SIX MONTHS ENDING
JULY 31, 1969

REPORT FROM THE PRESIDENT
ON BEHALF OF THE BOARD OF
DIRECTORS OF LOCHIEL EXPLORATION
(Formerly Mollusca Oils)
October 8, 1969

Your company has been engaged in a number of interesting activities over the past few months and it gives me great pleasure to report these on behalf of the Board of Directors. All activities engaged in, I might add, have strengthened your company and assure a solid footing for the future.

On August 18th a general meeting of shareholders was called and the following moves were made:

- * The company changed its name from Mollusca Oils to Lochiel Exploration;
- * A change was made in the board of directors and at the same time all old shares were called in and new ones were issued on the basis of 10 old for one new;
- * Authorized capital was increased from \$1,250,000 to \$10,000,000 divided into 10,000,000 shares without nominal or par value;
- * A total of 3,325,247 shares were issued to acquire all shares of Citizens Pipeline Limited;
- * Certain net profit interests were acquired in the Canadian arctic;
- * All debts were retired and an underwriting to place \$300,000 in the treasury is being negotiated.

All the above transactions have obtained the necessary clearances from the Alberta Securities Commission and the Calgary Stock Exchange.

With the acquisition of Citizens Pipeline Limited your company has obtained a 17 per cent interest in Petromines Limited. Petromines' main assests are 100 per cent interest in one million acres in the Western Canadian Arctic; 2/3 interest in 2,200,000 acres onshore west of James Bay in Ontario and 100 per cent interest in 22 mineral claims in the vicinity of the Chemalloy mine

in the Shatford Lake area of southwest Manitoba.

It should be noted that the accompanying balance sheet does not reflect any of the above re-organization moves made at the general meeting of August 18th. In addition, increased oil production from our Baxter Lake properties and a reduction in expenses have allowed your company to improve its position over last year.

Citizens Pipeline Limited, our wholly-owned subsidiary, has had the following events take place:

1. A 16-gaswell program in which Citizens has a 50 per cent working interest in the Buffalo area of southeast Alberta has been completed. A gas contract has been signed calling for delivery of approximately 8.5 million cubic feet per day starting November 1, 1969.
2. An interest (1/3 of 80 per cent) in ten gas well completions in offshore Lake Erie near Port Dover, Ontario has been acquired. Deliveries will start on only five wells this winter owing to a pipe shortage which is, in turn, due to steel strikes. Eight more wells will be drilled this autumn and next spring to complete this project.
3. King Resourcs has continued to explore their farmout from the company of 2 million acres in the Sverdrup Basin of the Canadian Arctic. Pan Arctic is drilling on Melville Island within 68 miles of one block and is moving supplies to Ellesmere Island, immediately east of Axel Heiberg where Citizens has 600,000 acres (in the same option to King Resources).
4. Other companies have now filed acreage completely surrounding your company's 100 per cent owned 736,000 acre play offshore East Baffin Island indicating a new prospective area is developing between Baffin Island and Greenland.
5. Your company has completed airborne geophysical surveys on 178,240 acres of mining permit lands in Northeast Alberta where our interests vary from

MOLLUSCA OILS LIMITED

STATEMENT OF INCOME

FOR THE SIX MONTH PERIOD ENDED JULY 31, 1969

(Unaudited)

	<u>1969</u>	<u>1968</u>
Revenue		
Oil sales	\$ 7,381	\$ 4,612
Less royalties	989	579
	<u>6,392</u>	<u>4,033</u>
Operating and development expenses		
Production expenses	4,469	6,136
Depreciation	824	623
Depletion	875	522
Lease rental	307	530
	<u>6,475</u>	<u>7,811</u>
Loss from operations	<u>(83)</u>	<u>(3,778)</u>
Administration expense		
Stock exchange fees	975	225
Office expense	88	474
Registrar and transfer fees	298	474
Interest	256	242
Management salary	-	2,100
Legal and audit	-	3,584
Travel and promotion	-	678
	<u>1,617</u>	<u>7,777</u>
LOSS FOR THE PERIOD	<u>\$ (1,700)</u>	<u>\$(11,555)</u>

MOLLUSCA OILS LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

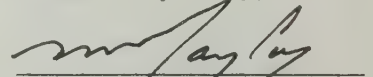
FOR THE SIX MONTH PERIOD ENDED JULY 31, 1969

	<u>1969</u>	<u>1968</u>
Source of Funds	<u>\$ Nil</u>	<u>\$ Nil</u>
Funds Applied		
Loss for the period	\$ 1,700	11,555
Deduct charges to operations not involving disbursement of funds		
Depreciation	(824)	(623)
Depletion	(875)	(522)
	<u>1</u>	<u>10,410</u>
Equipment purchases	1,096	147
Decrease in working capital	<u>\$ 1,097</u>	<u>\$ 10,557</u>

50 per cent to 100 per cent. Interpretation is not complete but some anomalies have been revealed which necessitate a ground party going in.

6. Your company has a 20 per cent carried working interest in two Permits (#98 and #109) totalling 337,010 acres in the Baker Lake area where the operator, New Continental, has completed an airborne survey, field work, and some diamond drilling. We have two very interesting uranium shows backed up by three diamond drillholes. More drilling will be commenced soon.
7. Your company acquired an option to earn 60 per cent in Federal Mineral Exploration Permits 92 and 93 (334,000 acres) northwest of Baker Lake in the Northwest Territories. We then assigned 80 per cent of our interest to our partners at Baker Lake. (New Continental and Petrobec). Airborne surveys are just being completed on these parcels.
8. Through its ownership of 17 per cent of all the issued shares of Petromines Citizens (and therefore Lochiel) have a further interest in the Canadian Arctic. Petromines owns 100 per cent of 1/2 million offshore acres on the western side of Melville Island where Pan Arctic recently abandoned two shallow tests. Pan Arctic is, however, drilling two other wells on the island with the announcement of a third to come.
9. Your company has 10 per cent of a consortium operated by Canadian Industrial Gas which has a 43,538 acres concession from the Italian Government in the Adriatic Sea. The consortium is now starting seismic work. A gas well of undetermined size has recently been completed by a French group within two miles of the northwest boundary of our concession. It will be some time, however, before we can obtain any information on the well.

Yours very truly,



N. W. Taylor, President
Lochiel Exploration Ltd.

**LOCHIEL
EXPLORATION
LTD.**

**INTERIM
REPORT**

Six Months Ending
July 31, 1971

TO THE SHAREHOLDERS:

Your company continued its growth during the first half of its current fiscal year. With the Atlee Buffalo gas plant on full stream, sales of oil and gas nearly doubled, rising to \$262,654 up 190% over the same period in 1970. Cash flow from operations was up four times (407%) to \$102,189. Net crude oil production amounted to 10,637 barrels, while gas production increased to 1.4 billion cubic feet.

On the exploration scene, Lochiel's extensive Arctic acreage interests are expected to be influenced by several adjacent exploration and development wells in the ensuing six months to a year. The loans made by several large U.S. gas purchasers to Panarctic, Magnorth and others, are reported to require, as well as exploration, the drilling out of the reserves on King Christian Island and Melville Island. The King Christian gas reserves will be of interest as Lochiel's 12% interest in one-third of a million acres immediately to the north appears to be on structure. The recently licensed well Panarctic Tenneco et al Kristoffer Bay G-06 is located approximately one mile northwest of Lochiel's block. This well, together with the two completions on King Christian Island, will mean that our acreage has been straddled.

In the Banks and Prince Patrick Island areas of the western Arctic, Lochiel has a 12% working interest in one-half million acres and through its stock interest in Petromines, participates in that company's 75% working interest in another one-half million acres. The Banks area is now getting attention from the Elf-Aquitaine group which has announced its first well on Banks Island.

Your company's production in southern Alberta and Lake Erie continues to perform well. A number of wildcat projects are on the drawing board which should get under way this winter. The group participating with Lochiel in land holdings in the Adriatic has been approached for a farmout and drilling in this gas area can be expected to commence this winter. Lastly, Imperial Oil chose acreage on the west part of Devon Island for its first large scale farmout from Panarctic. Thus your company through its 100% interest in half a million acres along the west coast of this island should benefit from Imperial's exploration activities.

It is reported that about \$175 million will be spent in the Arctic during the next five years on exploration and is expected to include the drilling of 150 - 200 wells. As Lochiel has interests in 5.5 million acres in the Arctic, more of this drilling will no doubt be located near our holdings. Lochiel's land acquisition and exploration activities are being expanded to capitalize on its rising cash flow. Our gross acreage position now exceeds 9 million acres including 2.8 million acres in the Offshore East Coast.

We increased our mining interests with the acquisition of a 20% interest in 133 claims in the Cache Creek area in British Columbia just north of the proposed Bethlehem Maggie copper mine. During this summer, field work was in progress on our uranium holdings in the Baker Lake area.

On behalf of the Board:
N. W. Taylor
President

LOCHIEL EXPLORATION LTD.

and subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For Six Months Ended July 31, 1971

(Unaudited)

	<u>1971</u>	<u>1970</u>
Revenue		
Oil and gas sales	\$262,654	\$138,094
Less: Royalties paid	31,648	15,693
Net production revenue	<u>231,006</u>	<u>122,401</u>
Other income	10,053	3,239
	<u>241,059</u>	<u>125,640</u>
Expenses		
Operating	48,652	31,535
General and administrative .	90,218	69,041
	<u>138,870</u>	<u>100,576</u>
Net cash flow from operations	<u>102,189</u>	<u>25,064</u>
Non-cash charges		
Depletion	44,542	17,938
Depreciation	27,456	9,126
	<u>71,998</u>	<u>27,064</u>
Net Income (Loss)	<u>\$ 30,191</u>	<u>\$ (2,000)</u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For Six Months Ended July 31, 1971

(Unaudited)

	<u>1971</u>	<u>1970</u>
Funds were derived as follows:		
Net income for the period .	\$ 30,191	\$ (2,000)
Add: non-cash charges	<u>71,998</u>	<u>27,064</u>
Funds generated from		
operations	102,189	25,064
Issuance of capital stock ...	78,750	-
Decrease in refundable		
deposits	19,530	-
Sale of property	-	42,500
Increase in long term debt .	-	72,045
	<u>200,469</u>	<u>139,609</u>
Funds were applied as follows:		
Additions to property, plant		
and equipment	88,042	85,829
Additional investment in		
Petromines Limited	26,000	-
Decrease in long term debt .	74,882	-
	<u>188,924</u>	<u>85,829</u>
Increase in working capital ...	<u>11,545</u>	<u>53,780</u>
Working capital at beginning		
of period	<u>292,912</u>	<u>(233,586)</u>
Working capital at end		
of period	<u>\$304,457</u>	<u>\$(179,806)</u>

AR23

LOCHIEL EXPLORATION LTD.

Business Office

890 Calgary House
550 - 6 Avenue S.W.
Calgary 1, Alberta
Phone 265-8405

Officers

President - - - N. W. Taylor
Vice-President - - S. L. Melton
Secretary - - - W. A. Work
Treasurer - - - M. S. Devonshire

Directors

T. E. Davies
M. S. Devonshire
W. J. Major
S. L. Melton
N. W. Taylor
W. A. Work

Transfer Agent

Guaranty Trust Company
Calgary

Bank

Toronto-Dominion Bank
Calgary